

There's a RONA for you

2002 Annual Report



Highlights of the year

RONA had a record year in 2002. Net earnings grew 75% to \$43.1 million, an all-time high for the Company. The second quarter was the best in its history, with a 113% increase in net earnings.

Among the year's highlights are the following:

May 29

RONA launches its new, entirely redesigned website

May 30

RONA inaugurates a new big-box RONA Home & Garden store in Ottawa (Ontario)

October 30

RONA opens a new big-box RONA Home & Garden store in Mississauga (Ontario)

November 5

RONA raises \$150.1 million through an IPO

December 20

The Toronto Stock Exchange officially welcomes RONA

Profile Founded in 1939, RONA is one of the leading retailers and distributors of hardware, home improvement and gardening products in Canada.

Thanks to its network of 527 stores of different formats operating under various banners from coast to coast, RONA reaches the majority of Canadian consumers. Over 10 million square feet of its network are devoted to retail sales. More than 16,000 employees work within the RONA network. More than 83% of Canadians live less than a 30 minutes drive from a RONA store.



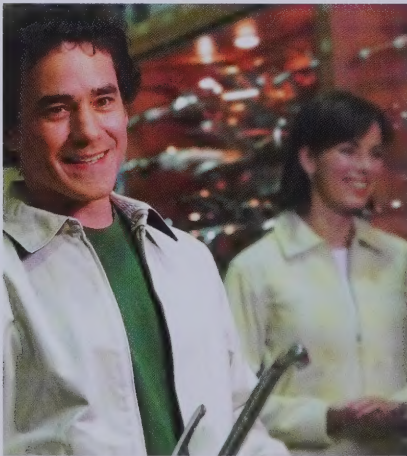
All kinds of jobs

Big-box stores

for everyone

RONA's big-box stores offer a large variety of products and the guaranteed lowest prices on hardware, tools, construction materials, gardening items, paint, decor, seasonal items... Large and spacious, these stores offer personalized customer service.

RONA L'entrepôt and RONA Home & Garden (formerly Revy Home & Garden Warehouse in Western Canada) stores serve large urban areas, while those under the RONA Le Régional banner are located in medium-sized markets. The 40,000 to 165,000-square-foot stores operating under this banner offer anywhere from 35,000 to over 45,000 products.



Small and big jobs

Traditional stores

for the people in the regions and in the neighbourhood

RONA's traditional stores include small and medium-sized neighbourhood hardware stores and renovation centres that are an integral part of the social fabric of their communities. They operate under one of the following banners: RONA Le Quincaillier, RONA Le Renovateur, RONA L'express, RONA Home Centre (formerly Revy Home Centres and Revelstoke Home Centre in Western Canada) and RONA Hardware.

The mission of RONA hardware employees is to meet the basic needs of their customers in hardware and seasonal items and to offer a broad selection of paint products.

The employees at RONA's renovation centres are known as experts in construction materials and paint. These centres offer a wide range of seasonal products and a complete assortment of other basic products.



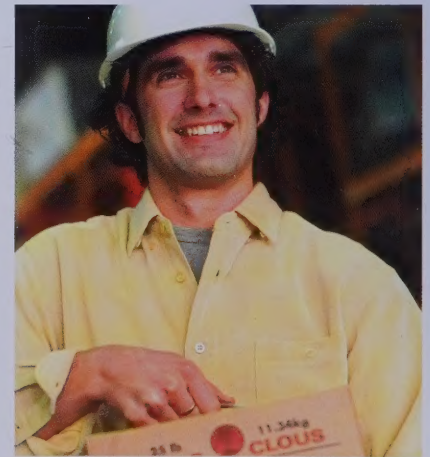
Contractors, handymen and gardeners

Specialised stores

for industry professionals

The specialised stores are tailored to the needs of specific groups such as construction and renovation contractors, tradespeople and gardeners. These stores offer a selection of products and services especially suited to the daily activities of these experts.

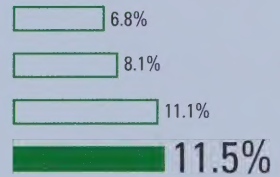
RONA Cashway, RONA Lansing, RONA L'express Matériaux and RONA Building Centre serve mostly a clientele of construction, design and home renovation professionals, as well as handymen, artisans and consumers working on major projects. The BOTANIX stores, for their part, offer a wide variety of products and advice on plant selection, their upkeep and landscaping.



83%

of the Canadian population
can reach...

RONA's market share* in Canada

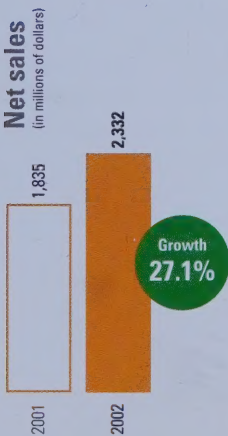


* RONA's network retail sales amounted to \$2.827 billion in 2002 out of a total market of \$24.6 billion. (source Geocom)

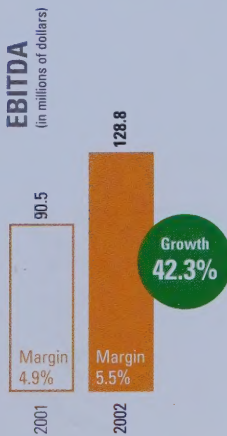
Stock information

Ticker symbol	RON
Stock exchange	TSX
Price at IPO	\$13.50

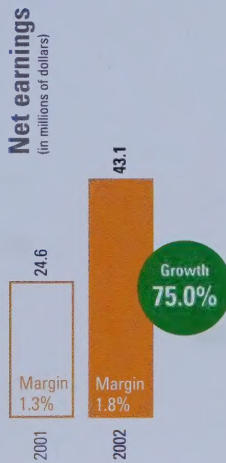
Net sales (in millions of dollars)



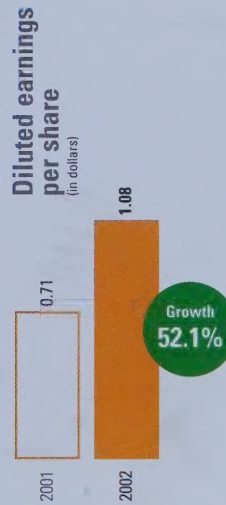
EBITDA (in millions of dollars)



Net earnings (in millions of dollars)



Diluted earnings per share (in dollars)



Message from management

Actively present on all fronts



Robert Dutton, President and Chief Executive Officer



André H. Gagnon, Chairman of the Board of Directors

It is appropriate that our opening words be addressed to the thousands of new RONA partners: welcome to all the shareholders who have joined our Company following RONA's IPO in November, 2002.

A sign of your confidence in our business plan, your decision also confirms your belief in our 16,000 employees those who carry out RONA's business plan every day in our stores, distribution centres and support centres and who personify the very vision that drives us.

First, we would like to highlight the remarkable contribution of our employees in 2002. Despite some major disruptions – notably, the integration of the RONA and Revy networks and our IPO – RONA earned record profits for the 12th year in a row.

The substantial growth in our earnings per share is only one reason for us to be proud. Our strong sales growth also goes hand in hand with our expanded presence across Canada.

In fact, the eighth consecutive increase in our operating ratio (the relationship between operating revenue and sales) measures our continuously improving operating efficiency.

www.rona.ca

These parameters are important because they measure our performance. But this year, we are especially pleased with the 7.0% increase in same-store sales. Such growth is telling for three reasons:

- Its absolute level is indicative of the strength of the market we serve and confirms what our socio-demographic analyses suggest: RONA is operating in a promising market.
- Because it exceeds that of most other retailers, our growth by comparable stores proves that our store formats, our retail sales force and service quality are meeting consumer needs.
- It is proof positive that our marketing strategies are effective.

Confirming our strategy, these conclusions are also promising in terms of prospects for the future. However, our period of rapid growth is not a licence to become complacent vis-à-vis the challenges that await us.

Traditional stores

Specialised stores

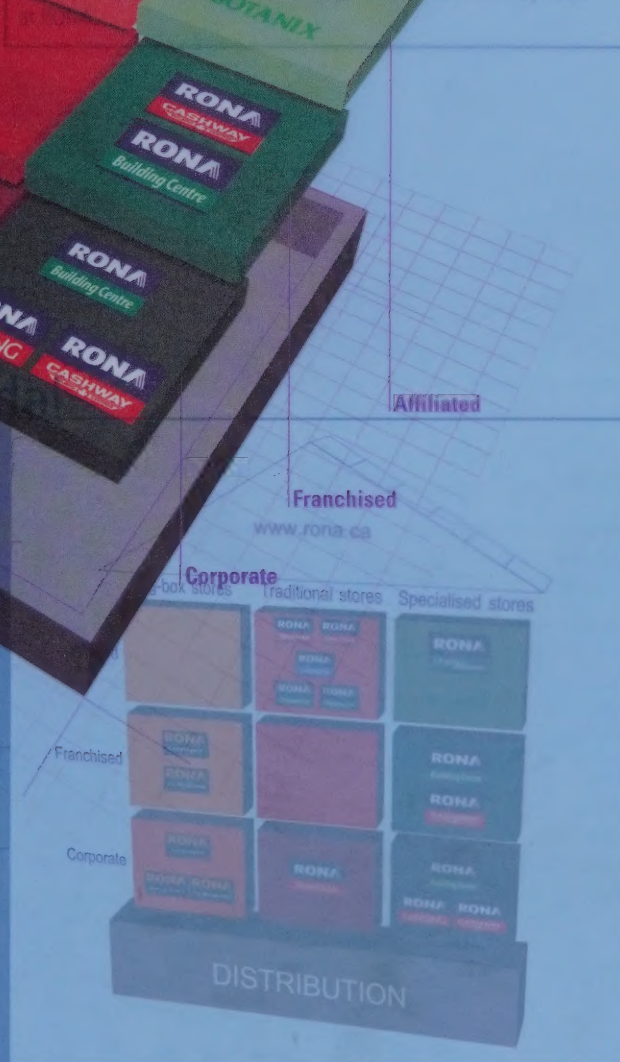
RONA offers Canadian consumers a national network of stores of varied formats, identified by their respective banners. RONA bases its growth strategy on the conviction that consumers have a wide range of needs and that no retail sales format can satisfy them all.

This growth strategy relies on an efficient network of five distribution centres across the country and revolves around three types of ownership—corporate stores (wholly owned by the Company), franchised stores and affiliated stores—and three types of stores—big-box, traditional and specialised.

RONA has also integrated fully operational e-commerce into its retail activities.

Growth strategy

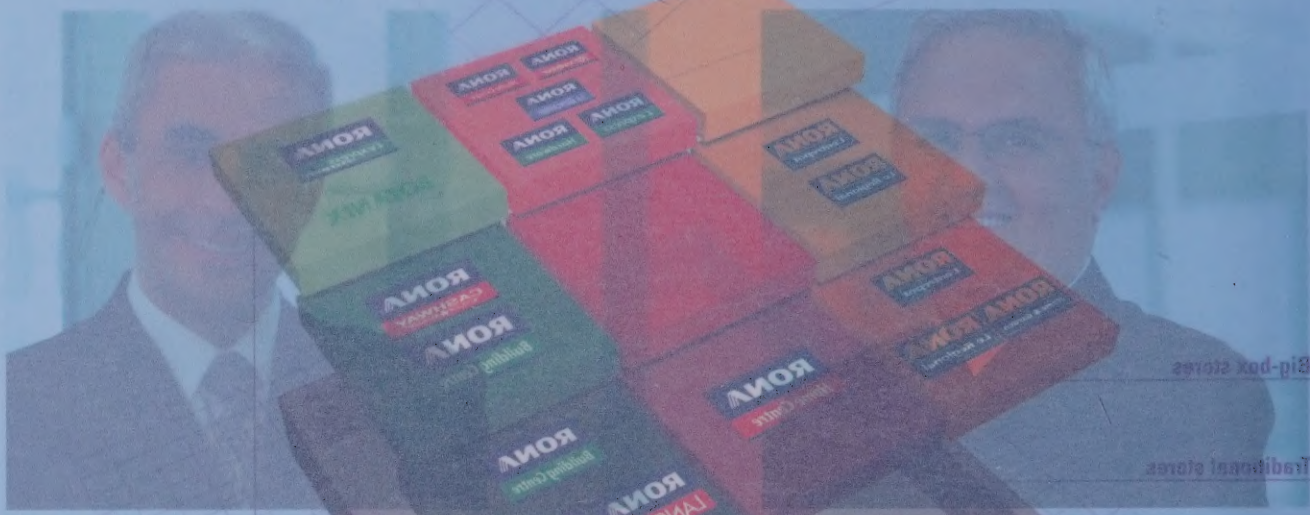
RONA's growth strategy is based on offering a varied selection of products and top-notch service to Canadian consumers: the homeowner, weekend handyman, do-it-yourselfer, and professional tradesperson. RONA's growth strategy is based on offering a varied selection of products and top-notch service to Canadian consumers: the homeowner, weekend handyman, do-it-yourselfer, and professional tradesperson.



Message from management

Actively present on all fronts

www.1001.ca



Robert Dutton, President and Chief Executive Officer

Robert H. Gagnon, Chairman of the Board of Directors

It is appropriate that our opening words be dedicated to the thousands of RONA partners who have welcomed to all the shareholders who have joined our Company following RONA's IPO in November, 2002.

A sign of your confidence in the business plan that we have developed and implemented confirms your belief in our 1001.ca vision. We are committed to this business plan every day in our stores, distribution centres and service centres and who personify the very vision that drives us.

First, we would like to highlight the remarkable contribution of our employees in 2002. Despite some major disruptions – notably, the integration of the RONA and Revy networks and our IPO – RONA earned record profits for the 12th year in a row.

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- Its absolute level is indicative of the strength of the market we serve and confirms what our socio-demographic analyses suggest: RONA is operating in a promising market.
- Because it exceeds that of most other retailers, our growth by comparable stores proves that our store formats, our retail sales formula and service quality are meeting consumer needs.
- It is proof positive that our marketing strategies are effective.

Confirming our strengths, these conclusions are also promising in terms of our prospects for the future. However, our performance is not a license to become complacent vis-à-vis the challenges that await us.

Growth strategy

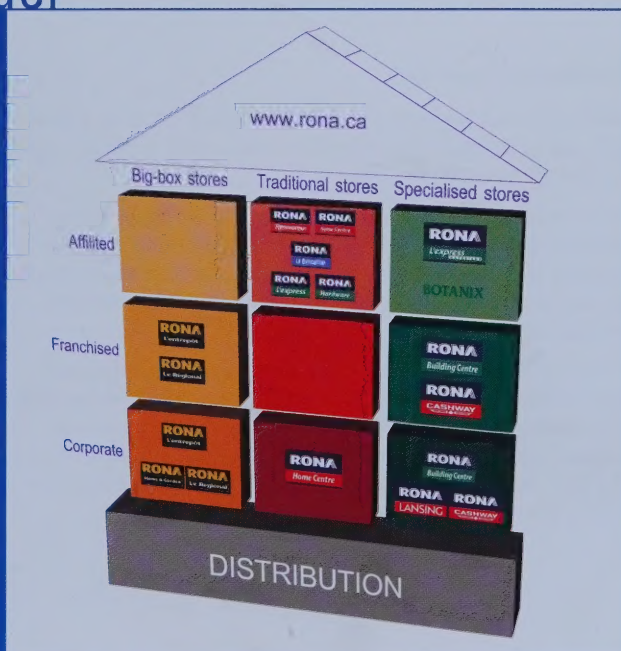
RONA's approach is to offer a varied selection of products and top-notch service to Canadian consumers. Man, woman, weekend handyman, artisan contractor, construction contractor or serious do-it-yourselfer, big city or small town resident – everyone can find what they need at RONA.

RONA's business model

RONA offers Canadian consumers a national network of stores of varied formats, differentiated by their respective banners. RONA bases its growth strategy on the conviction that consumers have varied needs and that no retail sales format can satisfy them all.

This growth strategy relies on an efficient network of five distribution centres across the country and revolves around three types of ownership—corporate stores (wholly owned by the Company), franchised stores and affiliated stores—and three types of stores—big-box, traditional and specialised.

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The consumer challenge

Our overriding challenge remains the same: to satisfy consumers by offering them the right combination of selection, service and price. With this in mind, RONA decided to offer consumers a choice between several store banners and formats, a smart decision because it allows us to match our service offering to the specific needs of each market segment and each Canadian region while benefiting from the savings generated by a shared physical and technology infrastructure.

We therefore have a flexible, quality network identified by the RONA brand right across Canada.

However, this network is only a means to an end. Its purpose is to meet the high expectations of consumers, who are prepared to spend to improve their homes but who are also aware of the power they wield in this highly competitive market.

These consumers reserve their loyalty for those dealer-owners that offer them the best value. Although price is a very important component in the value equation, service is also a determining factor. As varied as it may be, the structure of a network cannot in itself guarantee adequate service. Service quality is ultimately the responsibility of all of RONA's employees, even those who never come into contact with customers: Store layout, product selection, supplier negotiations, logistics and operations planning must all be carried out with the consumer in mind.

The efficiency challenge

While it is a must, impeccable service is not enough. The price must be right, and it can only be competitive if the supply chain is efficient, from the plant all the way to the consumer.

For several years now, RONA has ranked first in the biannual survey conducted by the international organization Interlink on the operating efficiency of major distributors. This efficiency is the outcome of tireless efforts and continuous investments in our physical and technological infrastructure.

In this vein, we also capitalized on the integration of the companies acquired since 2000 to reorganize our information management systems and enhance their efficiency. This reorganization, which has already produced results, will be completed by the end of 2003, marking the end of a phase but not of the ongoing search for even better and more user friendly information management systems.

The integration of our acquisitions has also enabled us to build a pan-Canadian distribution network whose efficiency and flexibility is unique in the Canadian home improvement industry.

The opening in 2004 of a new 300,000-sq-ft distribution centre in Calgary will bolster this distribution network and provide us with the capacity we need to further our development in Western Canada.

The growth challenge

Our network is the only one of its kind in our industry in North America to offer all types of store formats. It is also the only one that combines all possible types of ownership formulas: corporate, franchised and affiliated stores. These multiple formats and ownership formulas provide RONA with a unique advantage in terms of growth, because depending on the opportunity, we can pursue our expansion on all market segments: small or large stores, urban, semi-urban or rural areas.

Moreover, our network architecture allows us to develop one or more of the following growth areas:

- We can expand our network by building stores that we operate ourselves or franchise; thus, by mid-2004, we will build five to eight big-box stores in Ontario and in Western Canada, two of which are scheduled to open in 2003.
- We can extend our network by recruiting dealer-owners: the new density of our Ontario network, and in the West, the strengthening of our distribution network and conversion of the store network to the RONA brand are all factors that will make it easier to attract new dealer-owners. Our target is to recruit 250 over the next four years.
- RONA will continue with mutually profitable acquisitions of companies with compatible cultures and network configurations. The same rigour and discipline that characterized our transactions in the past will be applied when selecting target companies, negotiating the transaction and integrating the new acquisition.

Growth and discipline

More generally, rigour and discipline will continue to shape our actions and development. In fact, despite diluted earnings per share, grown at an average rate of 22.7% per year for the last 10 years, and notwithstanding the Company's profound transformation over this period, we have never strayed from these values of prudence and discipline which have served us so well.

Our Board of Directors is responsible for safeguarding these qualities. On behalf of all my colleagues on the management team and the 16,000 employees in the RONA network, I would like to thank the members for their discipline and dedicated efforts. Their analyses and questions encourage reflection and drive us towards excellence. In this regard, all our shareholders are beholden.

We would like to express our special thanks to three members who will not be renewing their mandates, Wayne Filsinger, George J. Heller and Jacques Landreville. Their contribution will be missed.



Robert Dutton
President and Chief Executive Officer



André H. Gagnon
Chairman of the Board of Directors

A tribute to Henri Drouin

In May 2002, Henri Drouin retired after having been associated with RONA for his entire professional life. After becoming a RONA dealer-owner in 1966, he was elected to the Board of Directors in 1976. He became the board's chairman in 1981 and served in this capacity for 21 straight years. When Mr. Drouin accepted to head our board, RONA was essentially limited to Quebec and generated sales of \$214 million. In 21 years, RONA has been transformed many times over. Henri Drouin was involved in all these transformations and all the major decisions that have made RONA what it is today.

Henri Drouin did not merely witness RONA's growth. He was a driving force behind it. From the earliest RONA dealer-owner right up to the newest shareholder, from our most senior employee to our most recent recruit, we're all the beneficiaries of Henri Drouin's passion and efforts. We are all indebted to his vision, dedication and wisdom.

Henri, may you enjoy a long, happy and exciting retirement.



The Boucherville
distribution centre
boosted productivity

12%

in 2002

RONA
QUALITÉ
BY LINE

RONA
QUALITÉ
BY LINE

L'ENTRÉE

ENTRANC

Distribution

Channelling efficiency

RONA's distribution know-how dates back to the Company's beginning as a purchasing group in 1939. Today RONA has an integrated national distribution network of five warehouses located in Eastern, Central and Western Canada.

Bolstered by its new pan-Canadian reach, RONA strengthened its national distribution structure in 2002. Its teams stepped up the pace of centralizing and streamlining operations, thus maximizing the potential synergies in purchasing, replenishment and logistics.

RONA has effectively optimized its distribution chain by minimizing the use of third parties, by maximizing the supplier's distribution network and by specializing its own distribution network.

Purchasing

Following the acquisition of the Revy network, RONA began consolidating its supplier base in 2002 and in the process strengthened its relationship with many of them. RONA's purchasing team has also renegotiated commercial agreements with key suppliers and made sure that the purchasing terms reflect the increase in RONA's volume.

RONA continually adapts its product offering to consumer needs in light of demographic trends and changes in attitudes and buying habits.

In this vein, RONA's teams developed new product category management systems in 2002 whose full impact will materialize in 2003. The Company also expanded its product offering, namely, in decor, gardening and seasonal items.

Replenishment

RONA's distribution expertise is acquired above all through technology. During the year, the Company reviewed its management information systems with a view to facilitating information exchange between its departments and partners. This integration is scheduled to be completed in 2004.

EDIfying communications

To improve communications with its suppliers, and by extension, enhance inventory management, RONA uses electronic data interchange (EDI).

Some 85% of transactions with suppliers now take place through EDI, a user-friendly system that allows the Company to electronically exchange with hundreds of suppliers invoices and orders representing several millions of dollars in annual purchases.

Information sharing

After completing the SKU matching process following the acquisition of Cashway and Revy, RONA moved to the next step in May 2002 with the development of the new data warehouse called RD2W, scheduled for implementation in spring 2003.

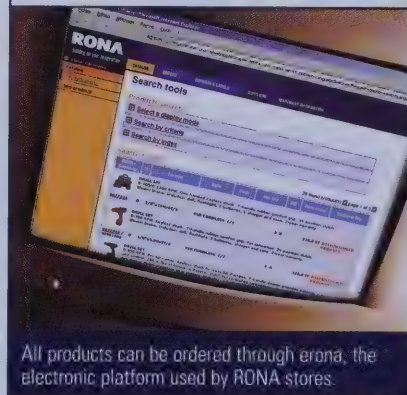
Using data generated by RONA's various computer systems, RD2W will allow managers to rapidly access national sales and inventory data, find out product availability and performance and perform cross analyses.

With RD2W, RONA will be able to create purchasing synergies, improve inventory turnover, better position its products, monitor its promotional activities and enhance store performance and profitability.

RONA: a brand like no other

RONA has been offering a private label product line for 10 years now. In Quebec, the popularity of RONA's products is a given, as confirmed by its top ranking in a survey conducted by *Commerce* magazine last March on consumer appreciation of private label renovation products.

In 2002 and at the beginning of 2003, the complete line of RONA private label products was introduced in the RONA Lansing, RONA Home Centre (Western Canada) and RONA Home & Garden stores.



Logistics

Compared to its peers in international surveys carried out every two years, RONA always ranks among the top distributors in the world in terms of operating efficiency.

In 2002, this efficiency continued to improve across RONA's distribution infrastructure. Already on the cutting edge, the distribution centre located in the Montreal suburb of Boucherville, succeeded in boosting productivity 12% over 2001.



RONA's network has

41

big-box stores

Big-box stores

Consolidating its growth

The RONA network has 41 big-box stores in Quebec, Ontario, Manitoba, Alberta and British Columbia.

Managing a national network

The teams assigned to big-box store operations spent 2002 centralizing their activities and setting up a national information structure on retail operations that accelerates and increases the exchange of information between the Boucherville head office and the profit centres across the country.

RONA also stepped up the process of harmonizing its commercial offering to maximize the spinoffs of its new pan-Canadian size. To this end, the Company reviewed its product categories with a view to offering more similar items in all its stores.

In 2002, RONA also focused on developing tools to evaluate and analyze market needs and forecast trends. The Company also deployed new national cross-merchandising programs to increase sales.

A growing network

During the year, RONA opened two big-box stores in Ontario: the first, a 130,000-square-foot RONA Home & Garden in the Ottawa suburb of Gloucester on May 29, and the second, another RONA Home & Garden, spanning over 140,000 square feet, in Mississauga on October 30.

These new points-of-sale allowed RONA to capture substantial market share in these two major Ontario urban centres.

During the year, RONA also fully or partially re-merchandised all of its big-box stores in Canada. The Company took advantage of this opportunity to introduce new product lines, namely, the RONA brand in Ontario and in the West, and to adapt the configuration of all the big-box stores to new consumer requirements (lighting and floor covering departments, etc.).

Acknowledge, Guide and Provide

Since 2000, RONA has been capitalizing on an innovative initiative to promote customer service quality referred to as the AGP program (Acknowledge-Guide-Provide). This program encourages store employees to adopt certain behaviours and helps them better acknowledge, guide and provide customers with solutions that meet their needs.

Already applied in Quebec and in several stores in Ontario, this program was adopted in 2002 for the other stores in Ontario and Western Canada, where it will be deployed beginning in spring 2003.

The ultimate big-box store in Canada

Last February, RONA Revy Home & Garden Grandview of Vancouver was named "Best Large Big-Box Retailer" in the country at the awards ceremony of *Hardware Merchandising*, Canada's leading business magazine for hardware and home improvement retailers. This store was recognized for, among other things, its merchandising expertise customer service, profitability, growth and employee training.



The best in the world

During the year, RONA's teams and dealer-owners developed a prototype of a virtual big-box store aimed at creating nothing less than the best big-box hardware-renovation store in the world.

This prototype combines management and retail operations practices based on many corporate traditions: the best of RONA, Revy, Lansing and Cashway. This continually evolving project is the foundation on which all new stores in the country will be developed and merchandised.

In 2002, several elements of this prototype were integrated into the new RONA Home & Garden store in Mississauga, Ontario.

A smiling woman with dark hair, wearing a black RONA t-shirt, is holding a wooden board with several metal fasteners. She is looking towards a man whose back is to the camera. The background is a blurred view of a store interior with shelves of products.

RONA's network
comprises

311

traditional stores

Traditional stores

Maximizing user friendliness

RONA's traditional store network comprises 311 points of sale serving the provinces of Newfoundland, New Brunswick, Quebec, Ontario, Saskatchewan, Alberta and British Columbia.

Entrepreneurship is alive and well at RONA

Held in large part by independent merchants, particularly in Quebec, RONA's traditional stores combine the spirit of entrepreneurship and community roots with the strength of RONA's network. This way of doing things helps each store increase its profits and ensure RONA's long-term profitability.

Among these dealer-owners, nearly 60% have been a part of the RONA network for more than 10 years. And more than 95% of all our dealer-owners have committed to remaining with RONA for at least 10 years beginning in 2002.

Supporting development

RONA offers its dealer-owners and store managers ongoing support by way of training programs, guidance and advice on how to adopt and maintain good business practices.

RONA's new merchandising structure was fully deployed in 2002 in the traditional stores, whose managers now receive support from merchandising professionals committed to their needs. Drawing from their extensive knowledge of consumer behaviour and expectations, these experts select the most appropriate products and make sure they are optimally showcased to maximize store efficiency and profitability.

In 2002, RONA also created two new positions at its administrative headquarters to support the growth of its stores. The directors of operations support dealer-owners and store managers with the daily management of their businesses, while the development directors work together with the dealer-owners on long-term planning and special projects.

A new national concept: RONA Home Centre

RONA spent the year developing a new store concept known as the RONA Home Centre, which will gradually replace the Revy Home Centres and Revelstoke Home Centre in Western Canada beginning in spring 2003.

These points of sale will be revitalized to offer consumers a more user-friendly environment where they can find all types of renovation and decorating solutions. The stores will impress with their new open layout and specialised departments including a RONA Paint Boutique, a tool centre, a lighting Boutique, a door and windows Boutique and a floor covering section.

Confidence in the future

RONA and its dealer-owners are constantly expanding and updating their stores with a view to making them more inviting and enhancing customer service.

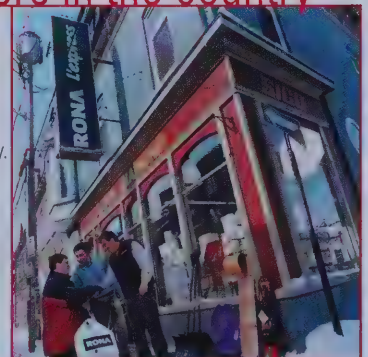
During the year, some 30 traditional points of sale were remodeled or entirely renovated. The dealer-owners involved were able to take advantage of this opportunity to add new departments, such as a decorating or a paint boutique.

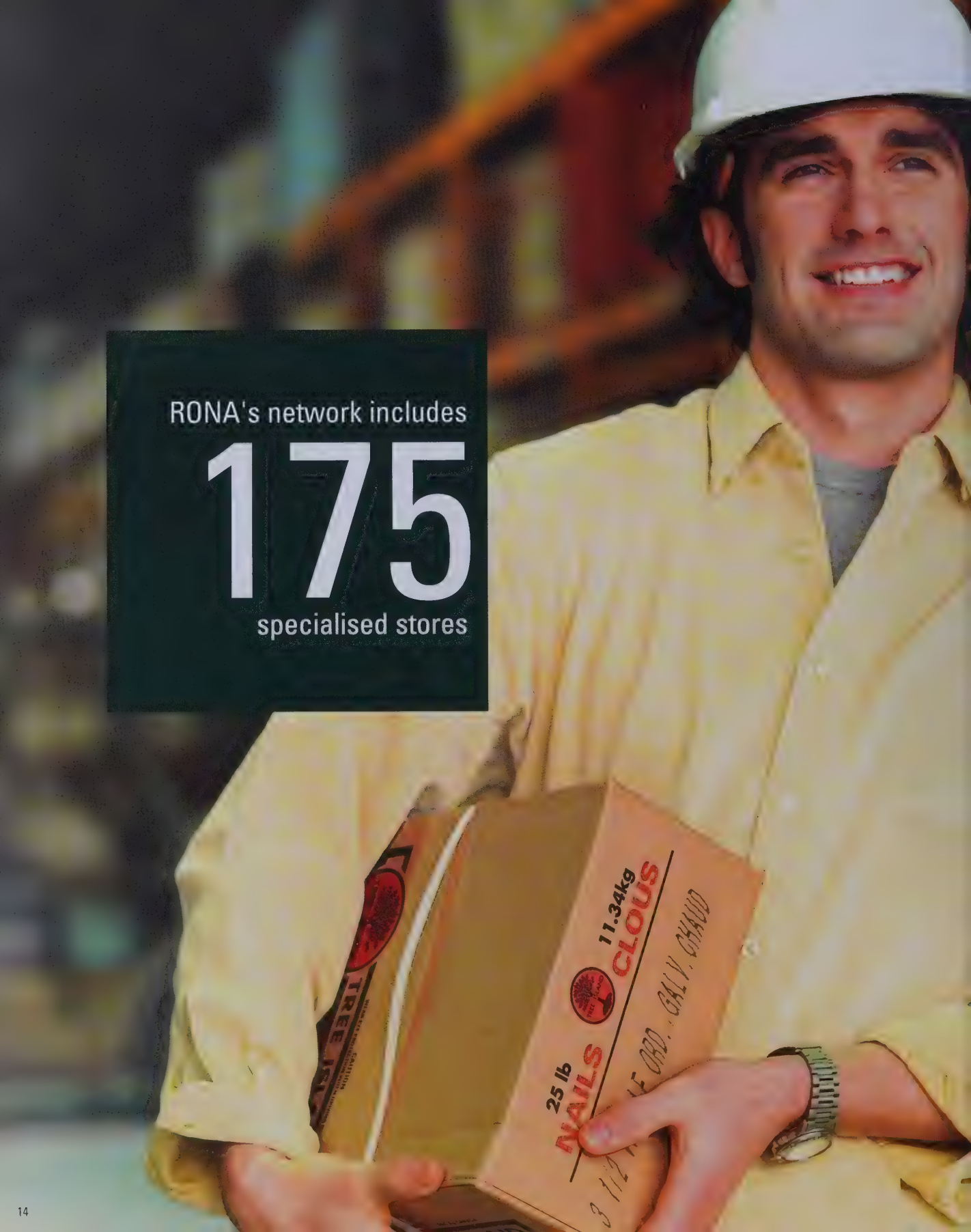
In the past four years, nearly 80% of RONA's stores were either opened, re-merchandised or relocated, boosting sales and profitability.

The best little hardware store in the country

Canada's leading hardware-renovation magazine, *Hardware Merchandising*, last February presented the award for "Best hardware store under 5,000 square feet" in Canada to Quincaillerie Saint-Jean-Baptiste, a store under the RONA L'express banner in Quebec City.

This store impressed the jury with its sustained sales growth, merchandising initiatives, staying power and success in the face of tough competition.





RONA's network includes

175

specialised stores

25 lb
NAILS
11.34kg
CLOUS
3 1/2" x 16" F. ORD. GALV. CHD

Specialized stores

Sharing its expertise

The RONA network has 175 specialized stores in Nova Scotia, Quebec, Ontario and Alberta.

The professional's store

Over the years, RONA's management, dealer-owners, employees and acquired companies have forged strong business ties with construction, renovation and gardening professionals.

RONA is an expert in this area and in the specific needs of consumers in this promising market segment. This is why the Company decided to leverage this comparative advantage by further specializing the stores under the banners RONA L'express Matériaux, RONA Cashway, RONA Lansing, RONA Building Centre and Botanix.

Services tailored to specific needs

While they serve a varied clientele, the specialized stores are designed and laid out especially for tradespeople consisting of construction and renovation contractors, electricians, painters, plumbers, landscapers and professionals in charge of maintaining commercial and residential buildings.

In these stores, RONA has modeled its commercial offering and services specifically to meet the expectations of this clientele, for example, by providing a broad selection of merchandise, exclusive products, additional delivery, service order preparation and extended financing plans.

Revitalization on the agenda

In 2002, RONA began deploying a new point-of-sale accounting and inventory control system in its RONA Cashway stores in Ontario and RONA Revy stores in Western Canada. Scheduled for completion in 2003, the new system will boost store efficiency, improve inventory management and enhance customer service.

The Company also continued with its program to expand, renovate and re-merchandise its RONA Cashway stores. To this end, a dozen points of sale were revitalized during the year and re-merchandised to better reflect market trends and thereby increase sales and profitability.

Botanix: expertise and leadership

Botanix is the largest group of specialised gardening dealer-owners in Canada. Botanix garden centres set themselves apart by their superior selection of plants and high-quality gardening products, as well as by their advice on plant selection, upkeep and landscaping.

Botanix's strategic plan was revised at a conference held in March 2002, where managers and dealer-owners agreed to refocus their marketing initiatives, which will henceforth place more emphasis on the leadership of this banner in the market.

To meet the information needs of gardening hobbyists and professionals, RONA published in 2002 the eighth edition of the Botanix Guide, which offers extensive information, advice, photos and illustrations to over 150,000 gardening enthusiasts in Canada.

63% of Canadians consider themselves handymen,

47% like gardening, and

47% like decorating

(source CROP, 2002)

A new banner: RONA Building Centre

This past year, RONA's teams put the final touches on a new specialised store concept for construction contractors and handymen: the RONA Building Centre. The first store under this banner opened its doors in February 2003 in Midland, Ontario.

Designed to better meet the requirements of tradespeople, these stores provide personalized service by seasoned experts, a layout that makes materials easy to find, products tailored to their needs, and guaranteed fair prices. One of the features of the new concept is a redesigned storage area to facilitate truck access and loading. Lastly, new merchandising concepts were implemented for kitchen cabinets, doors and windows.





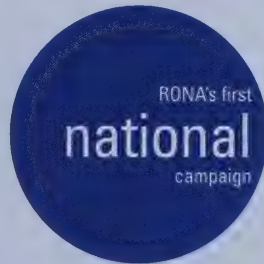
RONA
The How-To People.

RONA invests
more than
\$60 million
annually in marketing

Marketing / social commitment

Extending our visibility across Canada

As a new national major player in the industry, RONA is stepping up its efforts to become a household name in Canada. In 2002, the Company increased its initiatives aimed at building a strong national brand image and extending the high level of recognition it enjoys in Quebec to the rest of the country.



Some 530 stores unified under a single image

The process of harmonizing RONA's brand image across the country has now been completed. The last step, finalized in March 2003, involved converting its 39 Revy and Revelstoke stores in Manitoba, Saskatchewan, Alberta and British Columbia to the RONA name.

To maximize the spinoffs of this transition, the Company launched an advertising campaign in March 2003 under the themes *My name is still Bob* or *My name is still Brenda*. Through an intensive radio and newspaper campaign, RONA reminded consumers in Western Canada that although Revy stores had a new name, their qualified and attentive employees were still there, guaranteeing quality service.

"I am a handyman/handywoman"

In spring 2003, RONA also rolled out the biggest marketing campaign of its history, combining television, radio, internet, print advertising, flyers, in-store banners, targeted sponsorships and public relations. RONA has invested over \$60 million in a new Canada-wide bilingual television campaign. The purpose of the "RONA – Vous voulez. Vous pouvez" and "RONA – The How-To People" campaign is to make the RONA brand as strong in the rest of the country as it is in Quebec.

This advertising campaign differs vastly from the mainstream where retailers all address consumers in the same way and also departs from the traditional advertising found in the hardware and renovation market by its dynamism and use of humour. Based on the premise that consumers are proud of their achievements, the RONA campaign showcases the talent, expertise and achievements of their customers through the theme "Je suis un bricoleur/bricoleuse" and "I am a handyman/handywoman."

You are a handywoman

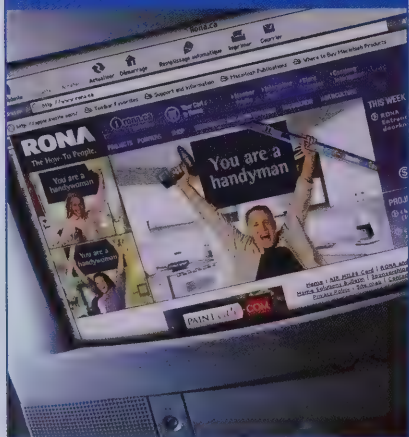
RONA

The How-To People.

rona.ca, version 3.0

RONA launched its third-generation website in May 2002. Rona.ca was completely redesigned to become the first truly virtual multi-service home solution store, with more than 600 projects and articles online.

These efforts have borne fruit: the site has set a traffic record with an average of 245,000 visits per month. Our website also earned three major prizes during the year: the *Mérite du français* from the Office québécois de la langue française in the *Mérite Grande entreprise* category, the *Prix du public*, presented at the Electronic Business Gala, and the *Octas 2002* from the Fédération de l'informatique du Québec, in the B2C category.



A coordinate approach

In 2002 RONA focused on nationally coordinating the marketing activities of its banners through a pan-Canadian marketing plan with the same schedule of events for all stores.

During the year RONA also centralized the production of its flyers, harmonizing their presentation and content and generating substantial economies of scale in the process. With more than 215 million copies distributed annually, RONA flyers reach some 7 million homes, in other words, nearly all Canadian households.

RONA is active in the community

Day in, day out, RONA is inspired by the values of its founders: solidarity, respect for human dignity, sharing wealth and the search for the common good. These values are expressed through its philanthropic activities in Canadian communities.

Through the RONA Foundation, the Company has created a social funding tool to support the work of community agencies that provide assistance to young people between the ages of 12 and 30, who are dealing with problems like dropping out of school and illiteracy.

RONA, its dealer-owners and employees also actively support a number of other humanitarian causes, including the *RONA-Revy Road Runners 24-Hour Relay for the Kids* (challenged children) and the fundraising campaigns of agencies such as Centraide, the Children's Aid Foundation, Accueil Bonneau, the Multiple Sclerosis Society of Canada and the Quebec Cystic Fibrosis Association.

RONA  **Foundation**

RONA-Esker's cycling team: class and passion

During the 2002 season, RONA-Esker's cycling team forged ahead on the elite women's circuit. The team and its members wore RONA's distinctive colours and brought home a number of victories.

The team also became more international with its nine athletes from five different countries. Four of the cyclists participated in the last World Championships wearing their national colours.



Three touchdowns for RONA

In 2002 RONA again renewed its association with Canadian football by becoming a lead sponsor of the Canadian Football League's (CFL) new team, the Ottawa Renegades.

In May the Company also signed on with the CFL to continue as the league's "Official Home Improvement Retailer." This past year also marked the third consecutive season that RONA has been a major sponsor of the Montreal Alouettes.

RONA launches into renovation on reality TV

To support its marketing campaign "Vous voulez. Vous pouvez" and "RONA – The How-to People," the Company has concluded two major sponsorship agreements.

In Quebec, RONA will present a renovation reality TV series called *Ma maison RONA*, hosted by Marie-Lise Pilote. The program will air on TVA during spring and summer 2003.

The program places two families in similar homes, asking them to renovate and decorate the rooms. Renovation contractors, design professionals and architects are available to provide advice.

Each week, the public and a jury will vote on their favourite room; however, the outcome will be revealed only on the tenth and final episode. The winning family will get to keep the renovated house and all its contents while the other family will receive generous consolation prizes.

In English Canada, RONA has sponsored another renovation reality show called *Debbie Travis' Facelift*, which will be broadcast on the specialty channel Home & Garden TV. In this program, the host, in cahoots with one of the spouses, friends or members of the family, surprises the other spouse by renovating and redecorating one or more rooms during his/her extended absence.

Two major sponsorships on reality TV

Corporate governance

RONA has implemented strict corporate governance standards that ensure systematic risk management and the pursuit of shareholder interests. These standards are updated to reflect guidelines issued by the Toronto Stock Exchange and relevant regulatory agencies.

Composition and responsibilities of the Board of Directors

The Board is composed of 15 members, all from outside the Company except the president and chief executive officer. Most of the members (eight) are unrelated, within the meaning in the Toronto Stock Exchange Corporate Governance Guidelines.

At the date of the next annual general meeting the number of directors will be reduced to 13. The positions of chairman and CEO are separate.

The Board of Directors oversees the conduct of the Company's business and supervises its executives who are responsible for conducting the business. Every year the Company's senior management reviews and updates the Company's strategic plan and submits the details thereof to the Board of Directors. This strategic plan or business plan reviews the Company's market position in light of the Company's potential business strategy to expand its market.

The Board of Directors, together with senior management, is responsible for identifying the principal risks associated with the Company's business and ensuring the implementation of appropriate systems for their management.

Compositions and responsibilities of the Board's committees

The Board of Directors has four committees:

- The Executive Committee is composed of six members, five are outside directors. This committee is vested with powers by the Board of Directors, save a few exceptions set out in the Company's incorporating act or bylaws.

- The Human Resources and Compensation Committee is composed exclusively of outside unrelated directors. The Committee's mandate is, among other things, to recommend and to have the Board vet principles governing the recruitment and evaluation of the president and chief executive officer and senior management reporting to the latter. The committee also oversees compensation plans or policies applicable to senior management and employees and a development and succession plan for senior management. This Committee also sees to the application of all policies, procedures and controls pertaining to human resources, examines financing and investment policies, and the return and capitalization of the Company's pension plans.
- The Nominating and Corporate Governance Committee consists of four members, all outside directors and most of them are unrelated. The Committee is also responsible, among other things, for recommending to the Board and obtaining its approval for a corporate governance charter, a code of ethics and conduct for Board members, officers and employees, and for overseeing its application. It is also charged with recommending and obtaining approval for a performance evaluation mechanism for the Board and its committees. The Committee also recommends candidates for director positions and ensures the respect and application of the Company's communications policy.
- The Audit Committee has five members, all outside directors and most of them are unrelated. This committee oversees, among other things, the presentation of financial information, risk management, internal controls and external auditors, and reviews financings. It ensures the quality and integrity of the presentation of financial information, and the Company's quarterly and annual financial statements; analyzes investments or financial operations that could affect the Company's stability; and ensures the Company respects its financial commitments.

Board of Directors

⁽¹⁾ Executive Committee ⁽²⁾ Audit Committee ⁽³⁾ Human Resources and Compensation Committee
⁽⁴⁾ Nominating and Corporate Governance Committee

André H. Gagnon⁽¹⁾

Saint-Hyacinthe (Quebec)
Chairman of the Board, RONA Inc.
President, H. Gagnon & Fils (1975) Inc.

André H. Gagnon has been RONA's chairman of the board since 2002. He was its vice-chairman from 1979 to 2002. Mr. Gagnon began his career in his parents' hardware store 50 years ago and became a RONA dealer-owner in 1962. Since 1966, he has been the president of H. Gagnon & Fils (1975) Inc., and a shareholder in four RONA big-box stores. Member since 1972

Boris Blache⁽²⁾

Vulaines-sur-Seine (France)
President, S.A. Lebal (Bricomarché)
S.A. Frelor (Bricomarché)

Boris Blache is the president and chief executive officer of Société Anonyme Française Lebal (Bricomarché) and Frelor (Bricomarché). Member since 1998

Alain Bouchard⁽²⁾

Lorraine (Quebec)
Chairman of the Board, President and Chief Executive Officer, Alimentation Couche-Tard inc.

Alain Bouchard has spent his entire career in retail. He is the founder, chairman of the board, president and chief executive of Alimentation Couche-Tard, a company that operates over 2,400 convenience stores in Canada and the U.S., making it an industry leader in Canada and the seventh largest such company in North America. Member since 2001

Louise Caya⁽²⁾

Notre-Dame-du-Bon-Conseil (Quebec)
Vice-President and Secretary,
Thomas Caya (1982) inc.

Louise Caya is the vice-president and secretary of Thomas Caya (1982) inc., a family-owned business and a RONA affiliate that she joined in 1993. Before that time, Mrs. Caya, a chartered accountant, was the controller at a Canadian subsidiary of a multinational equipment manufacturer. Member since 2002

Simon Cloutier⁽¹⁾

Sainte-Marie-de-Beauce (Quebec)
Co-Vice-Chairman of the Board of Directors, RONA Inc.
President, Matériaux Decoren Inc.

Simon Cloutier owns an interest in three RONA store. A graduate with an administration degree from Université du Québec à Trois-Rivières, Mr. Cloutier has over 20 years' experience in the retail trade. He served on the board of the Canadian Retail Hardware Association from 1994 to 2000. Member since 1998

Frédéric David

Tosny (France)
Chairman of the Board, ENIM S.A.

Frédéric David owns and manages two Bricomarché stores, part of a large French chain of renovation centres. Member since 2001

Robert Dutton⁽¹⁾

Montreal (Quebec)
President and Chief Executive Officer, RONA Inc.

Robert Dutton is the president and chief executive officer of RONA Inc. Holder of a business administration degree from HEC Montréal, Mr. Dutton has spent his entire career in the hardware-renovation industry, first, working in the family-owned hardware store, and then joining RONA, where from 1977 to 1990, he climbed the ranks, beginning with marketing and continuing up through retail operations, sales and strategic development. He was vice-president and chief operating officer from 1990 to 1992. Member since 1990

Wayne Filsinger

Guelph (Ontario)
President, Filsinger & Sons Ltd.

Wayne Filsinger owns and manages two RONA Cashway stores. He has over 30 years' experience in the retail trade. Mr. Filsinger helped develop the Beaver Lumber construction materials chain as a regional manager of a group of stores and as a franchisee. Prior to that, he was Cashway's vice-president, store operations. Member since 2001

Jean-Guy Hébert⁽²⁾

Cowansville (Québec)
President, Maximat inc.

Jean-Guy Hébert holds an interest in two RONA big-box stores. He holds a management accounting degree. He was member of the board of RONA between 1985 to 2001 and returned in 2002. Member since 1985

George J. Heller

Toronto (Ontario)
*President and Chief Executive Officer,
 Company Hudson's Bay*

George J. Heller has been president and chief executive officer of the Hudson's Bay Company since 1999. He has worked in the retail trade for nearly 30 years. He has spent most of his career working for the Hudson's Bay Company in, among others, its Zellers, Simpsons, The Bay and Woodward's divisions. He was also the president of the Victoria Commonwealth Games, Bata Industries (North America/Europe) and Kmart. Member since 2001

Jacques Landreville⁽¹⁾

Longueuil (Quebec)
President and Chief Executive Officer, Uni-Select Inc.

Jacques Landreville is the president and chief executive officer of Uni-Select, a leader in the distribution of automobile replacement parts in Canada and the United States. Prior to assuming this position in 1991, Mr. Landreville pursued an academic career in management and finance before moving to the food processing and marketing industry. Member since 1997

L. Jacques Ménard, O.C.⁽¹⁾⁽⁴⁾

Montreal (Quebec)
*Chairman of the Board, BMO Nesbitt Burns
 President, BMO Financial Group, Quebec*

L. Jacques Ménard is chairman of the board, BMO Nesbitt Burns and president, BMO Financial Group, Quebec. He has been working in business banking and securities for over 30 years and was the chairman of the executive board of Burns Fry, one of the predecessors of BMO Nesbitt Burns. Holder of a management degree, he serves on numerous boards. Member since 2001

André Roy⁽²⁾⁽³⁾⁽⁴⁾

Montreal (Quebec)
*Executive Vice-President, Administration
 Société générale de financement du Québec*

André Roy has been executive vice-president, Administration of SGF since 2000. An attorney by profession, he has spent most of his professional life in the business milieu after having practiced law with a legal firm in Montreal. He subsequently joined the management teams at Domtar, then at retail food distributor Métro-Richelieu. In 1982, Mr. Roy was appointed vice-president, Corporate Affairs of SGF and in 1998 became vice-president, Administration. Member since 2001

Jocelyn Tremblay⁽³⁾⁽⁴⁾

Longueuil (Quebec)
*Vice-President and General Manager,
 Vins Philippe Dandurand*

Jocelyn Tremblay is vice-president and general manager of Vins Philippe Dandurand. With a PhD in chemistry, he began his career with the Société des alcools du Québec, a wine and spirits distributor and retailer, which he headed from 1986 to 1998. He then continued his career in wine importing and promotion. He was also president of Charton-Hobbs from 1998 and to 1999. Member since 1998

Louis Tanguay⁽¹⁾⁽³⁾⁽⁴⁾

Laval (Quebec)
*Co-Vice-Chairman of the Board of Directors, RONA Inc.
 Corporate Director*

Louis Tanguay serves on numerous boards of Canadian and foreign companies operating in the telecommunications, food processing and technology sectors. He spent four decades at BCE, where he was executive vice-president of Bell Canada, president of Bell Québec and president and chairman of the board of subsidiaries of BCE. Member since 1999

Management's Discussion and Analysis

Change in fiscal year end

In 2002, RONA changed the Company's fiscal year-end date from December 31 to the last Sunday in December. The first three quarters of 2002 also ended on the last Sunday of March, June and September. As a result, there were 363 days in the 2002 fiscal year, two less than in 2001.

Stock split

On November 5, 2002, concurrent with the closing of a public offering and the listing of its common shares on the Toronto Stock Exchange, RONA restructured its share capital, primarily through a four-for-one split of common shares. In the following paragraphs, per-share amounts reflect this stock split.

The fiscal year in review

RONA recorded net earnings of \$43.11 million for the year ended December 29, 2002, a 75.0% increase over the \$24.63 million recorded in 2001. Earnings per share were up 51.4% to \$1.12 (\$1.08 diluted), compared to \$0.74 (\$0.71 diluted) in 2001. This is the 12th consecutive year of increased net earnings for RONA.

It should be noted that following the public offering in November 2002, Class D preferred shares are no longer convertible into common shares. As such, the dilution factor will be reduced in 2003. In addition, the stock options are included in the calculation of diluted earnings per share.

The surge in net earnings for the year is attributable in part to the Company's organic growth, in part to the integration synergies generated by the Revy acquisition that was effective as of June 6, 2001, and in part to same-store sales, which increased by 7.0% in 2002.

Same-store sales
+7%



Analysis of operating results

RONA's consolidated net sales include the sales of the distribution network and retail sales of corporate stores, as well as RONA's share of the retail sales of franchised stores.

Consolidated net sales for 2002 were \$2.33 billion, a 27.1% increase over 2001 sales of \$1.83 billion. The increase in net sales for the year is attributable in part to the Company's organic growth and in part to the impact of the Revy acquisition effective June 6, 2001. After the elimination of the Revy acquisition, the increase in retail sales for the year was 9.5%.

Distribution sales primarily include sales to affiliated and franchised stores, as well as deliveries from RONA's distribution centres to corporate stores. The segment net sales for distribution totalled \$1.41 billion in 2002 (taking into account intersegment net sales), compared to \$1.15 billion in 2001. The 22.6% increase was achieved across the distribution network with all centres experiencing growth. The distribution network's sustained activity attests to increased sales in the store network. It also reflects the significant increase in direct deliveries (products delivered directly to stores by the manufacturers) and also a greater use of RONA's distribution centres for the distribution of products previously handled through third parties.

Segment net sales for corporate and franchised stores grew 33.3% to \$1.40 billion in 2002 (taking into account royalties). The increase reflects, in part, the Revy acquisition in June 2001, the opening of two corporate big box stores in 2002 despite the closure of five under-performing RONA Cashway stores. The growth was achieved despite a drop in the industrial price of lumber, particularly in the six months from April to September. Also, same-store sales grew by 7.0% during 2002.

The growth in sales results from sustained construction and renovation activity, particularly in Western Canada and Quebec. Management believes this trend is due to several factors that stimulate renovation activity – notably, aging housing stock, an active property resale market, increased consumer purchasing power (especially among baby boomers), the cocooning trend (which changes housing expectations) and low interest rates.

RONA's marketing strategy is adapted to this environment, and management believes that this strategy is partly responsible for the Company's growth. RONA's portfolio of banners meets the needs of various market segments and the store concepts are adapted to regional market realities. RONA attaches a great deal of importance to the quality of its store network. In 2002 89 stores underwent renovations or expansions.

Operating income jumps 42.3%

For 2002 operating income amounted to \$128.78 million, a 42.3% increase over 2001.

Organic growth, the Revy acquisition in 2001 and improved operating margins made substantially equal contributions to improved operating income, which represented 5.5% of sales in 2002, compared to 4.9% in 2001. The improvement primarily results from the following factors:

- better operating efficiency with respect to management information systems, as well as physical and logistical operations;
- rigorous control of operating expenses;
- the progressive impact of purchasing and operating synergies resulting from integration into RONA's operations of those of Cashway and Revy, acquired since 2000;
- the development of the RONA private label program, especially in Ontario and Western Canada, as well as the expanded product offerings at points of sale, particularly in home decoration, gardening and seasonal items;
- the decrease in inventory losses, both in the distribution centres and in the stores;
- the Company's increased presence in the retail sales segment, where margins exceed those of the distribution segment.

RONA Inc.

Quarterly consolidated financial results (unaudited)

(In thousands of dollars, except earnings per share and diluted earnings per share)

	2002				2001			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net sales	\$443,821	\$717,767	\$630,621	\$539,910	\$253,603	\$478,152	\$594,661	\$508,128
Operating income (EBITDA)	19,328	46,402	36,389	26,665	12,737	24,587	30,437	22,767
Net earnings	3,783	18,327	11,900	9,104	2,806	8,600	8,662	4,565
Earnings per share	\$ 0.10	\$ 0.49	\$ 0.32	\$ 0.21	\$ 0.09	\$ 0.30	\$ 0.24	\$ 0.11
Diluted earnings per share	\$ 0.10	\$ 0.47	\$ 0.31	\$ 0.20	\$ 0.09	\$ 0.28	\$ 0.24	\$ 0.10

Interest, depreciation and amortization

Interest expense for the year amounted to \$27.10 million, compared to \$24.45 million for 2001. This increase is essentially the result of debt contracted in mid-2001 for the Revy acquisition. Nonetheless, the debt was significantly reduced at year-end due to the availability of funds from operations and from the public offering.

In 2002 depreciation and amortization totaled \$32.03 million, up 25.2% over 2001. This increase stems from the Revy acquisition as well as capital investments made in connection with the opening of new stores, the renovation of existing points of sale, and the integration of computer systems.

Cash flows and financial position

Internally generated funds were \$81.67 million in 2002, up 47.6% from \$55.32 million the previous year.

Despite the Company's growth, thanks to strict management control, cash flows from operations totaled \$82.07 million, a 20.6% increase over 2001.

In 2002 funds required for investments were significantly lower than for the previous year when the Company acquired Revy. Capital investments amounted to \$35.31 million, up 18.1% over 2001. Capital expenditures were mainly used for store construction, layout, expansion or renovation and for computer systems.

The public offering of November 2002 generated funds of \$140.74 million, net of issue costs. This capital injection, combined with strong cash flows from operations, made it possible to reduce the Company's debt by \$185.73 million.

Consequently, the Company's financial structure improved substantially during the year. As at December 29, 2002, the long-term debt to capital ratio⁽¹⁾ was 25.7%, compared to 60.4% a year earlier.

RONA is planning capital investments in the order of some \$100 million in 2003, including about 50% for real estate projects that would subsequently be subject to sale and leaseback agreements. Moreover, if potentially valuable opportunities present themselves at acceptable conditions, RONA could make acquisitions. As at December 29, 2002, the Company had available credit facilities in the amount of \$317.50 million.

Management believes that the Company has the necessary financial resources at its disposal to continue its operations and fulfill its development plan.

Risks and uncertainties

The home improvement and gardening products industry is highly competitive. Competitors include several large national chains and hundreds of regional groups and independent stores. Nonetheless, management believes that RONA has demonstrated its ability to prosper in this climate and in all market segments. Indeed, the Company has a number of advantages: a portfolio of banners and multi-format stores, a national coast-to-coast presence, and a major distribution network.

RONA's industry sector is seasonal. First quarter sales are always weaker due to the low level of activity in the renovation sector in winter. In addition, bad weather can impact sales, particularly of seasonal products.

Moreover, fluctuations in the price of lumber and other construction materials can have an impact on the Company's sales.

Prevailing economic conditions are, of course, out of the Company's control. Economic growth, the unemployment rate, interest rates, and business and consumer credit are all factors with a potential impact on sales. In recent years, these factors have been favourable.

Beyond economic conditions, certain structural trends – aging homes, an active resale market, growing interest in real estate investment, the aging population, the cocooning trend – favour the development of RONA's industry sector.

Net sales attributed to affiliated stores represented 21.1% of net sales in all the Company's segments in 2002. A significant loss of affiliated stores in spite of the Company's recruitment program could have a negative impact on RONA's sales. However, the average affiliated store has been associated with RONA for 16 years. Over 93% of affiliated stores have undertaken to remain with the Company until at least November 5, 2012 and have entered into an agreement granting a right of first refusal to the Company for their stores. Affiliated and franchised stores posted 95% buyer loyalty in 2002. The average affiliated store accounted for 0.1% of the Company's consolidated net sales in 2002 and no affiliated store represented more than 1.8%.

⁽¹⁾ This ratio corresponds to debt bearing interest over debt bearing interest and shareholders' equity.

Financial highlights

(in thousands of dollars, except figures relating to earnings per share, diluted earning per share, shares and percentages)

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Operations											
Net sales	\$ 2,332,119	\$ 1,834,544	\$ 1,317,505	\$ 988,385	\$ 818,051	\$ 707,093	\$ 656,850	\$ 587,302	\$ 580,359	\$ 477,696	\$ 449,312
Percentage increase	27.1%	39.2%	33.3%	20.8%	15.7%	7.6%	11.8%	1.2%	21.5%	6.3%	1.7%
Operating income (EBITDA)	128,784	90,528	60,088	37,175	30,570	25,734	20,212	16,204	15,268	13,767	12,435
Net earnings	43,114	24,633	18,013	14,706	13,511	11,063	9,130	6,932	6,895	5,396	4,328
Earnings per share	\$ 1.12	\$ 0.74	\$ 0.59	\$ 0.46	\$ 0.41	\$ 0.40	\$ 0.34	\$ 0.26	\$ 0.24	\$ 0.18	\$ 0.14
Diluted earnings per share	\$ 1.08	\$ 0.71	\$ 0.56	\$ 0.44	\$ 0.39	\$ 0.40	\$ 0.34	\$ 0.26	\$ 0.24	\$ 0.18	\$ 0.14
Common shares											
Outstanding	47,621,944	36,873,652	28,841,780	30,464,064	31,182,564	32,170,992	26,458,720	26,718,660	27,369,560	28,584,028	29,271,756
Cash flows from											
Operating activities	82,065	68,038	33,051	(5,617)	30,615	10,240	15,258	11,502	4,691	5,493	24,414
Financial structure											
Assets	766,434	744,076	450,973	287,916	253,575	165,692	142,291	130,588	97,543	91,903	87,359
Shareholders' equity	385,702	211,820	132,658	121,002	108,683	98,189	56,741	47,842	41,724	36,359	31,791
Long-term debt	99,337	283,788	104,514	36,242	34,877	4,639	26,259	9,833	10,423	7,857	23,876

Financial results 1992-2002

EBITDA
(millions \$)



CAGR: Compound annual growth rate

Net sales
(millions \$)



EPS (diluted)
(¢)



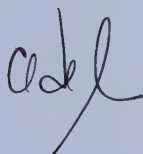
It takes a lot of skill
and insight to achieve...

10 years
of uninterrupted growth

Outlook

Economists remain optimistic about the Canadian economy in 2003, although stressing the uncertainty resulting from the Middle East crisis. In this context, the determining factors in RONA's market – the age of homes (64% are over 20 years old), the property resale market, changes in purchasing power, especially among baby boomers, and the cocooning trend – should continue to have a positive impact on renovation activity.

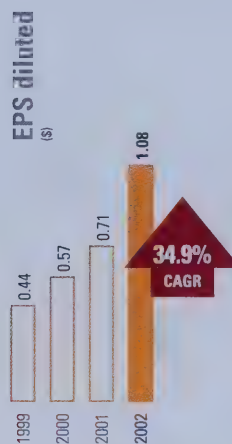
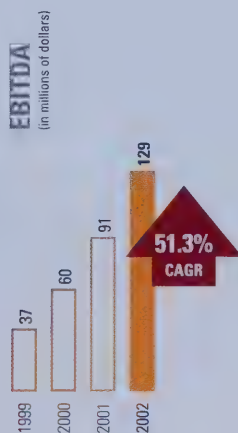
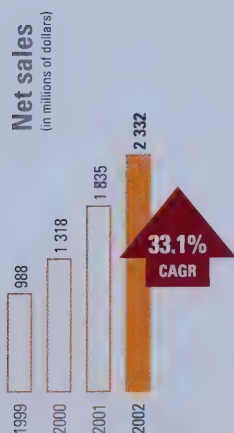
Last year, the Company was productive on all fronts. Organic growth in 2002 surpassed industry levels, while integration of acquisitions progressed according to plan and produced greater-than-expected synergies. RONA's management believes that the integration will continue to generate additional synergies and that it could integrate any future acquisitions with similar success. The addition of a new distribution centre in Calgary in 2004 will support retail operations and the development of the Company in Western Canada. Management is also convinced that operating efficiencies will improve once the integration of the management and information systems is completed, expected towards the middle of 2004.



Claude Guévin, CA
Executive Vice-President
and Chief Financial Officer

RONA's financial strength, as evidenced by its balance sheet, will permit it to actively pursue its business plan.

RONA intends to continue its growth strategy, in particular by improving the efficiency of its retail networks, increasing its distribution capacity and building corporate stores. By capitalizing on local and regional consolidation opportunities, RONA will also focus on acquisitions and on recruiting affiliated dealer-owners.



CAGR: Compound annual growth rate

Management's report

on the consolidated financial statements

Management is fully accountable for the consolidated financial statements of RONA Inc. as well as the financial information contained in this annual report. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and have been approved by the Board of Directors.

RONA Inc. maintains internal accounting and control systems which, in management's opinion, reasonably ensure the accuracy of financial information and efficient and effective command of the company's business activities.

Chairman of the Board,



André H. Gagnon

The Board of Directors relies largely on its Audit Committee in assuming liability for the consolidated financial statements included in this report. The committee, which holds an annual meeting with members of management and external auditors, has reviewed the financial statements of RONA Inc. and recommended their approval to the Board of Directors.

The attached consolidated financial statements have been audited by the firm Grant Thornton, general partnership.

Executive Vice-President and Chief Financial Officer,



Claude Guévin CA

Auditors' report

to the shareholders of RONA Inc.

We have audited the consolidated balance sheets of RONA Inc. as at December 29, 2002 and December 31, 2001 and the consolidated statements of earnings, retained earnings and contributed surplus and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial

statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 29, 2002 and December 31, 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(S) Grant Thornton

Grant Thornton
General Partnership
Chartered Accountants
Montreal
February 19, 2003

Earnings

Years ended December 29, 2002 and December 31, 2001
(In thousands of dollars, except for earnings per share and diluted earnings per share)

	2002	2001
Net sales	\$ 2,332,119	\$ 1,834,544
Earnings before the following items	128,784	90,528
Interest on long-term debt	23,982	20,123
Interest on bank loans	3,118	4,326
Depreciation and amortization (Notes 10 and 12)	32,034	25,585
	59,134	50,034
Earnings before income taxes	69,650	40,494
Income taxes (Note 4)	26,536	15,861
Net earnings	\$ 43,114	\$ 24,633
Earnings per share (Note 21)	\$ 1.12	\$ 0.74
Diluted earnings per share (Note 21)	\$ 1.08	\$ 0.71

The accompanying notes are an integral part of the consolidated financial statements.

Retained Earnings and Contributed Surplus

Years ended December 29, 2002 and December 31, 2001
(In thousands of dollars)

	2002	2001
Retained Earnings		
Balance, beginning of year	\$ 99,822	\$ 81,334
Net earnings	43,114	24,633
	142,936	105,967
Expenses relating to the issue of common shares (Class D and E common shares in 2001), net of income tax recovery of \$3,426 (\$1,454 in 2001)	7,110	3,027
Premium on purchase of common shares	1,983	2,718
Dividends on Class D preferred shares		400
	9,093	6,145
Balance, end of year	\$ 133,843	\$ 99,822
Contributed Surplus		
Gain on disposal of the Company's common shares by wholly owned subsidiaries, net of income taxes of \$270 and balance, end of year	\$ 1,192	\$ -

The accompanying notes are an integral part of the consolidated financial statements.

Cash Flows

Years ended December 29, 2002 and December 31, 2001
(In thousands of dollars)

	2002	2001
Operating activities		
Net earnings	\$ 43,114	\$ 24,633
Non-cash items		
Capitalized interest on debentures	6,101	3,205
Depreciation and amortization	32,034	25,585
Loss (gain) on disposal of assets	(670)	352
Future income taxes	1,701	1,718
Share in earnings of companies subject to significant influence	(610)	(169)
	81,670	55,324
Changes in working capital items (Note 5)	395	12,714
Cash flows from operating activities	82,065	68,038
Investing activities		
Advances to joint ventures and other advances	1,212	
Business acquisition (Note 6)		(228,368)
Other investments	(2,527)	(1,617)
Fixed assets	(35,308)	(29,892)
Other assets	(2,665)	(14,511)
Disposal of assets	9,198	8,764
Cash flows from investing activities	(30,090)	(265,624)
Financing activities		
Bank loans and revolving term credit	(118,620)	85,995
Other long-term debt	595	74,728
Repayment of other long-term debt and redemption of preferred shares	(72,529)	(17,470)
Issue of common shares	149,259	61,375
Purchase of common shares	(785)	(1,369)
Expenses relating to the issue of common shares (Class D and E common shares in 2001)	(9,510)	(4,481)
Contributed surplus	1,192	
Dividends on Class D preferred shares		(400)
Cash flows from financing activities	(50,398)	198,378
Net increase in cash	1,577	792
Outstanding cheques, beginning of year	(1,102)	(1,894)
Cash (outstanding cheques), end of year	\$ 475	\$ (1,102)

The accompanying notes are an integral part of the consolidated financial statements.

Balance Sheets

December 29, 2002 and December 31, 2001

(In thousands of dollars)

2002 2001

Assets

Current assets

Cash	\$ 475	\$
Accounts receivable (Note 7)	131,910	118,786
Income taxes receivable		9,096
Inventory	347,276	328,315
Prepaid expenses	7,246	8,763
Future income taxes (Note 4)	6,260	9,058
	493,167	474,018
Investments (Note 8)	34,359	34,876
Fixed assets (Note 10)	201,176	193,643
Goodwill (Note 11)	19,469	19,469
Other assets (Note 12)	7,967	15,388
Future income taxes (Note 4)	10,296	6,682
	\$ 766,434	\$ 744,076

Liabilities

Current liabilities

Outstanding cheques	\$	\$ 1,102
Bank loans (Note 13)	13,568	16,745
Accounts payable and accrued liabilities	234,194	196,024
Income taxes payable	196	
Future income taxes (Note 4)	4,395	861
Instalments on long-term debt (Note 14)	20,803	22,080
	273,156	236,812
Long-term debt (Note 14)	99,337	283,788
Future income taxes (Note 4)	8,239	11,656
	380,732	532,256

Shareholders' equity

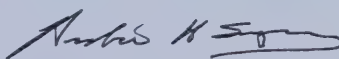
Capital stock (Note 15)	250,667	111,998
Retained earnings	133,843	99,822
Contributed surplus	1,192	
	385,702	211,820
	\$ 766,434	\$ 744,076

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board,



Jean-Guy Hébert
Director



André H. Gagnon
Director

Notes to Consolidated Financial Statements

December 29, 2002 and December 31, 2001

(Monetary amounts in the tables are in thousands of dollars.)

1. Governing statutes, nature of operations and change in fiscal year-end

The Company, incorporated under Part IA of the Companies Act (Quebec), is a distributor and a retailer of hardware, home improvement and gardening products in Canada.

In 2002, the Company changed its fiscal year-end from December 31 to the last Sunday of December.

2. Change in accounting policies

Earnings per share

In 2001, the Company retroactively adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) relating to earnings per share. This accounting change did not have any significant impact on the financial statements.

Goodwill

During the first quarter of 2002, the Company adopted the new recommendations of CICA Handbook Section 3062 relating to accounting for goodwill and other intangible assets on a prospective basis. Under the new recommendations, goodwill and other intangible assets deemed to have an indefinite life are no longer amortized. These assets are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired.

During the second quarter, the Company completed its transitional impairment tests and has ascertained that no impairment loss needed to be recognized.

In accordance with the CICA's requirements, the aggregate amount of goodwill has been reclassified to be presented as a separate line item on the balance sheet.

3. Accounting policies

Accounting estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to financial statements. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results may differ from those estimates.

Principles of consolidation

These financial statements include the accounts of the Company and its subsidiaries. Moreover, the Company includes its share in the assets, liabilities and earnings of joint ventures in which the Company has an interest. This share is accounted for using the proportionate consolidation method.

Revenue recognition

The Company recognizes revenue at the time of sale in stores, on delivery to the customer or when recovery is reasonably certain.

Inventory valuation

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the average cost method.

Investments

When there has been a loss in value of a long-term investment that is other than temporary decline, this loss is recognized in the statement of earnings.

Fixed assets

Fixed assets are depreciated over their estimated useful lives using the following methods and annual rates:

	Methods	Rates
Buildings	Straight-line	4%
Leasehold improvements	Straight-line	5% to 10%
Parking lots	Straight-line	8% and 12.5%
Furniture and equipment	Diminishing balance and Straight-line	10% and 20%
Computer hardware and software	Straight-line	10% to 33%

Goodwill

Goodwill is the excess of the cost of acquired enterprises over the net of the amounts assigned to assets acquired and liabilities assumed. Goodwill is not amortized. It is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it is impaired. The impairment test consists of a comparison of the fair value of the Company's reporting units with their carrying amount. When the carrying amount of a reporting unit exceeds the fair value, an impairment loss is recognized in an amount equal to the excess. The fair value of a reporting unit is calculated based on evaluations of discounted cash flows.

Other assets

Pre-opening expenses are amortized on a straight-line basis over a three-year period beginning at the start of operations.

Financing costs are amortized on a straight-line basis over the financing term, between one to six years.

Costs related to sale and leaseback agreements are amortized over the lease term according to the straight-line method.

3. Accounting policies (continued)

Income taxes

The Company uses the tax liability method to account for income taxes. Under this method, future income tax assets and liabilities are determined according to differences between the carrying amounts and tax bases of assets and liabilities. They are measured by applying enacted or substantively enacted tax rates and laws at the date of the financial statements for the years in which the temporary differences are expected to reverse.

Stock-based compensation plans

The Company has two stock-based compensation plans for which no compensation expense is recognized when stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital. Since the Company does not account for options granted to employees using the fair value method, it discloses pro forma information related to net income and earnings per share figures, which are calculated as if the entity applied the fair value method of accounting to stock options granted to employees (Note 15).

Derivative financial instruments

Interest rate swaps which are not used as hedges for accounting purposes are recognized at fair value and the resulting gains or losses are recorded in earnings.

Employee benefit plans

The company accrues its obligations under employee benefit plans and the related costs, net of plan assets.

The Company has adopted the following policies for the defined benefits plans:

- The cost of pensions earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees;
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value;
- Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment;
- The excess of the net actuarial gain (loss) over 10 % of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.

For defined contribution plans, the pension expense recorded in earnings is the amount of contributions the Company is required to pay for services rendered by employees.

Earnings per share and information pertaining to number of shares

Earnings per share are calculated by dividing net earnings available for common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated taking into account the dilution that would occur if the securities or other agreements for the issuance of common shares were exercised or converted into common shares at the later of the beginning of the period or the issuance date. The share redemption method is used to determine the dilutive effect of the stock options. This method assumes that proceeds of the stock options during the year which are in-the-money are used to redeem common shares at their average price during the period.

On November 5, 2002, the Company carried out an initial public offering which gave effect to a recapitalization resulting in all of then issued and outstanding shares being recapitalized into a single class of newly created common shares on a 4 for 1 basis. The weighted average number of shares outstanding and related earnings per share information were adjusted retroactively to give effect to the split.

4. Income taxes

	2002	2001
Current	\$ 24,835	\$ 14,143
Future	1,701	1,718
	<u>\$ 26,536</u>	<u>\$ 15,861</u>

Future income taxes arise mainly from the changes in temporary differences and direct costs related to a business acquisition in 2001.

The Company's effective income tax rate differs from the statutory income tax rate in Canada. This difference arises from the following items:

	2002	2001
Federal statutory income tax rate	26.1%	28.1%
Statutory rate of various provinces	11.5	11.7
Combined statutory income tax rate	<u>37.6</u>	<u>39.8</u>
Deductible portion of share issue expenses		(0.9)
Non-deductible dividends, net of impact of non-taxable dividends	0.2	0.4
Non-deductible costs	0.7	0.5
Other	<u>(0.4)</u>	<u>(0.6)</u>
Effective income tax rate	<u>38.1%</u>	<u>39.2%</u>

4. Income taxes (continued)

Future income tax assets and liabilities result from differences between the carrying amounts and tax bases of the following:

	2002	2001
Future income tax assets		
Current		
Incentive payments received	\$ -	\$ 928
Pension plan	557	1,913
Deferred non-capital losses	4,089	4,846
Other	1,614	1,371
	<u>\$ 6,260</u>	<u>\$ 9,058</u>
Long-term		
Financing costs	\$ 407	\$ 424
Deferred non-capital losses	2,613	3,086
Share issue expenses	3,170	1,167
Fixed assets and pre-opening expenses	2,132	1,775
Pension plan	685	191
Incentive payments received	388	
Other	901	39
	<u>\$ 10,296</u>	<u>\$ 6,682</u>
Future income tax liabilities		
Current		
Federal input tax credits deducted	\$ 4,335	\$ -
Big-box store development expenses and goodwill		861
Other	60	
	<u>\$ 4,395</u>	<u>\$ 861</u>
Long-term		
Fixed assets, pre-opening expenses and big-box store development expenses	\$ 6,632	\$ 6,928
Goodwill	1,330	4,395
Other	277	333
	<u>\$ 8,239</u>	<u>\$ 11,656</u>

5. Information included in the consolidated statement of cash flows

The changes in working capital items are detailed as follows:

	2002	2001
Accounts receivable	\$ (20,546)	\$ 24,574
Inventory	(16,045)	35,717
Prepaid expenses	826	(1,596)
Accounts payable and accrued liabilities	25,236	(33,630)
Income taxes payable (receivable)	10,924	(12,351)
	<u>\$ 395</u>	<u>\$ 12,714</u>

Cash flows relating to interest and income taxes on operating activities are detailed as follows:

	2002	2001
Interest paid	\$ 24,469	\$ 20,485
Income taxes paid	\$ 15,543	\$ 26,827

6. Business acquisition

On June 6, 2001, the Company acquired certain assets and assumed certain liabilities of a retailer of building supplies and hardware products, Revy Home Centres Inc. The acquisition was recorded using the purchase method. The operating results are consolidated in the statement of earnings as of the acquisition date.

The assets acquired and liabilities assumed amount to \$314,421,000 and \$98,516,000 respectively for a cash consideration of \$215,905,000. Direct acquisition costs, in the amount of \$15,309,000, including an amount of \$2,846,000 unpaid as at December 31, 2001, have been recorded as goodwill and amortized to December 31, 2001 on a straight-line basis over a 15-year period.

This acquisition has been financed as follows: share issue (\$60,000,000), debentures (\$40,000,000) and the balance through new credit facilities (Note 13).

7. Accounts receivable

	2002	2001
Trade accounts		
Affiliated and franchised stores	\$ 36,788	\$ 29,497
Joint ventures	8,260	6,875
Companies subject to significant influence	2,753	2,842
Other (retail customers)	80,802	73,926
Advances to joint ventures, prime plus 3% (prime plus 1% in 2001)	1,609	2,875
Other accounts receivable	228	903
Portion of investments receivable within one year	1,470	1,868
	<u>\$ 131,910</u>	<u>\$ 118,786</u>

8. Investments

	2002	2001
Joint ventures, at cost		
Preferred shares, dividend rate varying from 6% to 10.5%	\$ 10,502	\$ 10,189
Mortgages, weighted average rate of 8.6%, maturing on various dates until 2016	7,502	7,374
Advances, prime plus 3% (without interest in 2001)	101	1,700
Companies subject to significant influence		
Shares, at equity value	4,198	4,423
Mortgages, at cost, 9.5%, maturing in 2015	1,192	1,241
Preferred shares, at cost, redeemable over ten years, maturing in 2011	720	800
Advances and loans, at cost		
Mortgages and term notes, weighted average rate of 8.3% (8.5% in 2001), maturing at different dates until 2016	8,673	8,903
Advances, prime plus 1.5%	2,600	1,100
Loans to managers for acquisition of shares, without interest, maturing in 2007	172	312
Other	169	702
	35,829	36,744
Portion receivable within one year	1,470	1,868
	\$ 34,359	\$ 34,876

The consolidated statement of earnings includes dividend income for an amount of \$476,000 (\$482,000 in 2001) and interest income of \$2,187,000 (\$1,464,000 in 2001).

10. Fixed assets

	2002			2001		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Land and parking lots	\$ 29,797	\$ 1,482	\$ 28,315	\$ 25,935	\$ 1,303	\$ 24,632
Buildings	81,200	13,202	67,998	70,796	8,605	62,191
Leasehold improvements	14,753	2,399	12,354	14,092	2,406	11,686
Furniture and equipment	63,639	19,880	43,759	55,761	11,389	44,372
Computer hardware and software	45,685	20,652	25,033	34,540	13,564	20,976
Projects in process ^(a)	4,741		4,741	7,636		7,636
Land for future development	17,770		17,770	17,593		17,593
Assets under capital leases						
Furniture and equipment	951	271	680	5,397	2,727	2,670
Computer hardware and software	3,786	3,260	526	5,184	3,297	1,887
	\$262,322	\$ 61,146	\$201,176	\$236,934	\$ 43,291	\$193,643

^(a) Projects in process include the costs related to the construction of the buildings which will be used for the stores' operations.

9. Interests in joint ventures

Interests in joint ventures are difficult to compare from one year to another since the Company can be required to dispose of its interests and can purchase interests in new joint ventures. Moreover, the latter may not have a complete financial year.

The assets, liabilities, earnings and cash flows of the joint ventures in which the Company has an interest are:

	2002	2001
Current assets	\$ 63,196	\$ 50,657
Long-term assets	61,739	65,676
Current liabilities	49,573	38,571
Long-term liabilities	47,392	50,432
Net sales	267,496	231,016
Net earnings	2,175	551
Cash flows from operating activities	8,331	(2,015)
Cash flows from investing activities	(2,081)	(8,303)
Cash flows from financing activities	(6,979)	12,076

10. Fixed assets (continued)

Depreciation of fixed assets represents \$22,330,000 (\$16,510,000 in 2001).

During 2001, in the course of the transaction mentioned in Note 6, the Company also acquired fixed assets for \$45,300,000 and land for future development for \$13,044,000.

11. Goodwill

Goodwill related primarily to the acquisition of Cashway Building Centres Ltd. and certain assets of Revy Home Centres Inc. It also includes the related acquisition and integration costs.

The following table illustrates the application of CICA Handbook Section 3062 to net earnings, earnings per share and diluted earnings per share:

	2002	2001
Net earnings	\$ 43,114	\$ 24,633
Plus: Amortization of goodwill		1,061
Adjusted net earnings	\$ 43,114	\$ 25,694
Earnings per share:		
Net earnings	\$ 1.12	\$ 0.74
Amortization of goodwill		0.03
Adjusted earnings	\$ 1.12	\$ 0.77
Diluted earnings per share:		
Net earnings	\$ 1.08	\$ 0.71
Amortization of goodwill		0.03
Adjusted diluted earnings	\$ 1.08	\$ 0.74

12. Other assets

	2002	2001
At amortized cost		
Pre-opening expenses ^(a)	\$ 3,178	\$ 3,565
Financing costs ^(b)	3,886	7,178
Costs related to sale and leaseback agreements ^(c)	481	567
Development costs of big-box stores ^(d)		4,044
Other	422	34
	\$ 7,967	\$ 15,388

^(a) Pre-opening expenses include expenses which precede the start of operations of the distribution centre in Quebec, which has been operational since April 1999, as well as pre-opening expenses for the big-box stores.

^(b) Financing costs relate to new credit facilities (Note 13) and in 2001, also include costs related to the issuance of debentures (Note 14)

^(c) The costs related to sale and leaseback agreements include financing fees and interest capitalized to the start of commercial operations of the distribution centre in Quebec

^(d) The development costs for big-box stores, which represent the costs related to the development of the Ontario market, were charged to earnings during fiscal year 2002 following the recentralization of administrative functions relating to the development of this market

The amortization of other assets for the year ended December 29, 2002 amounts to \$9,704,000 (\$9,075,000 in 2001), including the amortization of goodwill in the amount of \$1,061,000 in 2001.

13. Credit facilities

a) Parent company and some subsidiaries located outside Quebec

As at December 29, 2002, the Company has credit facilities available in the amount of \$317,500,000 (\$327,500,000 in 2001) which are available to RONA and some of its subsidiaries outside Quebec. They are composed of a seasonal revolving term credit of \$50,000,000 expiring in July 2003, a revolving term credit of \$250,000,000 expiring in July 2004 and a \$17,500,000 (\$27,500,000 in 2001) term credit repayable in quarterly instalments of \$2,500,000, expiring in July 2004.

These credit facilities bear interest at rates varying from prime plus 0.5% to prime plus 2% in accordance with certain financial ratios. The Company has interest rate swaps to set fixed interest rates between 3.5% and 4.1% for periods expiring until 2004 with respect to \$150,000,000 for the use of the revolving term credit.

These credit facilities are secured by the universality of the assets owned by the parent company and some subsidiaries located outside Quebec.

These credit facilities comprise a number of covenants for the Company and some subsidiaries located outside Quebec. Assets may not be assigned as security and there are restrictions on the investments, additional debt, dividend payments and guarantees.

The Company must also respect certain financial ratios. As at December 29, 2002, these financial ratios are respected.

b) Subsidiaries and joint ventures

The bank loans of the subsidiaries and joint ventures are secured by an assignment of certain of their assets. The Company's share of these assets amounts to \$43,814,000 (\$44,370,000 in 2001).

These loans bear interest at rates varying from prime rate to prime rate plus 1% and are renewable annually.

14. Long-term debt

	2002	2001
Revolving term credit, rates varying from prime rate plus 0.5% to prime rate plus 2% (Note 13)	\$ 36,500	\$ 167,528
Term credit (Note 13)	17,500	27,500
Movable and real estate mortgages, secured by assets having a depreciated cost of \$70,736,000 as at December 29, 2002 (\$77,946,000 as at December 31, 2001) rates varying from 5.25% to 9%, maturing at various dates until 2017	48,311	54,011
17% debentures, interest capitalized during first three years, payable in three equal annual instalments as of 2005		43,205
Balance of purchase price, without interest, payable in March 2002		4,797
Obligations under capital leases, rates varying from 7.21% to 9.05% (7.21% to 7.9% in 2001), maturing on various dates until 2007	2,520	3,110
Shares issued and fully paid		
2,215,423 Class A preferred shares, Series 5 (4,085,051 shares in 2001) ^(a)	2,215	4,085
3,094 Class C preferred shares, Series 1 (1,632 shares in 2001) ^(b)	3,094	1,632
10,000,000 Class D preferred shares	10,000	
	120,140	305,868
Instalments due within one year	20,803	22,080
	<u>\$ 99,337</u>	<u>\$ 283,788</u>

^(a) During 2001, the Company issued 469,815 shares subsequent to the purchase of common shares for a value of \$469,815. Moreover, 1,869,628 shares in 2002 and 2,205,191 shares in 2001 were redeemed for \$1,869,628 and \$2,205,191 in cash respectively (Note 15).

^(b) The Company issued 1,788 shares in 2002 and 1,632 shares in 2001 as a result of the purchase of common shares in the amount of \$1,788,000 and \$1,632,000 respectively. In addition, 326 shares were redeemed in 2002 for a cash consideration of \$326,000 (note 15).

Dividends affecting earnings represent \$611,000 (\$351,000 in 2001).

The instalments on long-term debt for the next years are as follows:

	Obligations under capital leases	Other long-term loans
2003	\$ 1,148	\$ 19,899
2004	1,014	15,064
2005	371	5,118
2006	109	4,811
2007	181	9,376
2008 and subsequent years		63,352
Total minimum lease payments	2,823	
Financial expense included in minimum lease payments	303	
	<u>\$ 2,520</u>	

15. Capital stock

During 2001, the Company modified its authorized capital stock as follows:

- An unlimited number of Class D and E common shares were created;
- An unlimited number of Class C preferred shares, Series 1 were created.

During 2002, the Company undertook a capital reorganization and made the following changes:

- The Company split the Class A, C, D and E common shares on a four for one basis;
- The outstanding voting and participating Class C, D and E common shares were converted into an equivalent number of Class A common shares. Following the exchange, these classes of shares were cancelled;
- The Class D preferred shares no longer have the right of conversion into common shares;
- The Class E preferred shares were cancelled;
- The Class A common shares were redesignated as common shares.

Authorized

Unlimited number of shares

Common shares

Class A preferred shares issuable in series

Series 5, non-cumulative dividend equal to 70% of prime rate, redeemable at their issuance price (Note 14)

Class B preferred shares, 6% non-cumulative dividend, redeemable at the par value of \$1 each

Class C preferred shares, issuable in series

Series 1, non-cumulative dividend equal to 70% of prime, redeemable at their par value of \$1,000 each (Note 14)

Class D preferred shares, 4% cumulative dividend, redeemable at the Company's option at their issue price. Beginning in 2003, these shares will be redeemable at their issue price over a maximum period of ten years on the basis of 10% per year (Note 14)

15. Capital Stock (continued)

Issued and fully paid

The following table presents the changes in the number of outstanding shares and their aggregate stated value from December 31, 2000 to December 29, 2002:

	Common shares ^(a)		Class C shares		Class D shares	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Balance as at December 31, 2000	23,332,416	\$ 20,347	5,385,184	\$ 20,000		\$
Issuance of common shares in exchange for subscription deposits	335,488	1,199				
Issuance of common shares for cash	12,520	60				
Purchase of common shares for cash	(363,416)	(333)				
Purchase of common shares in exchange for Class A preferred shares, Series 5	(129,960)	(119)				
Purchase of common shares in exchange for Class C preferred shares, Series 1	(387,204)	(355)				
Issuance of Class D for cash					7,209,800	50,000
Issuance of Class E for cash						
Conversion into common shares						
Deposits received on common shares subscriptions						
Balance as at December 31, 2001	22,799,844	20,799	5,385,184	20,000	7,209,800	50,000
Issuance of common shares in exchange for subscription deposits	207,840	1,142				
Issuance of common shares for cash	10,962,824	147,911				
Purchase of common shares for cash	(123,996)	(120)				
Purchase of common shares in exchange for Class C preferred shares, Series 1	(328,376)	(317)				
Conversion into common shares	14,036,944	80,000	(5,385,184)	(20,000)	(7,209,800)	(50,000)
Deposits received on common shares subscriptions						
Shares reclassified as long-term debt						
Balance as at December 29, 2002	47,555,080	\$ 249,415	-	\$ -	-	\$ -

^(a) Were designated as Class A common shares until November 5, 2002.

15. Capital Stock (continued)

Issued and fully paid (continued)

	Class E shares		Class D shares (preferred)		Subscription deposits	Total
	Number of shares	Amount	Number of shares	Amount	Amount	Amount
Balance as at December 31, 2000		\$	10,000,000	\$ 10,000	\$ 977	\$ 51,324
Issuance of common shares in exchange for subscription deposits						1,199
Issuance of common shares for cash						60
Purchase of common shares for cash						(333)
Purchase of common shares in exchange for Class A preferred shares, Series 5						(119)
Purchase of common shares in exchange for Class C preferred shares, Series 1						(355)
Issuance of Class D for cash						50,000
Issuance of Class E for cash	1,441,960	10,000				10,000
Conversion into common shares					(1,050)	(1,050)
Deposits received on common shares subscriptions					1,272	1,272
Balance as at December 31, 2001	1,441,960	10,000	10,000,000	10,000	1,199	111,998
Issuance of common shares in exchange for subscription deposits						1,142
Issuance of common shares for cash						147,911
Purchase of common shares for cash						(120)
Purchase of common shares in exchange for Class C preferred shares, Series 1						(317)
Conversion into common shares	(1,441,960)	(10,000)			(1,295)	(1,295)
Deposits received on common shares subscriptions					1,348	1,348
Shares reclassified as long-term debt			(10,000,000)	(10,000)		(10,000)
Balance as at December 29, 2002	-	\$ -	-	\$ -	\$ 1,252	\$ 250,667

15. Capital stock (Continued)

Upon the redemption of the common shares, a \$1,983,000 premium (\$2,718,000 in 2001) was paid and deducted from retained earnings.

Stock-based compensation plans

The Company has adopted a stock option plan for specified senior officers, which was approved by the shareholders on May 1, 2002. A total of 1,460,000 options were granted at that date. Options granted under the plan may be exercised since the Company made a public share offering on November 5, 2002. The Company can grant options for a maximum of 1,870,000 common shares. As at December 29, 2002, the 1,460,000 options granted have an exercise price of \$6.94 and expire on December 31, 2012.

On October 24, 2002, the Board of Directors approved another stock-based compensation plan for designated senior executives of the Company and for certain unrelated outside directors of the Board. The total number of common shares which may be issued pursuant to the plan will not exceed 10% of the common shares issued and outstanding minus the number of shares subject to options granted under a previous share option plan. To date, no options have been granted.

As indicated in the accounting policies, the Company has not recognized any compensation cost with respect to its stock-based compensation plans. As at December 29, 2002, if the compensation cost relating to the plan had been determined based on fair value, in accordance with the fair value-based method of accounting for options, net earnings and earnings per share would have been reduced to the pro forma amounts indicated in the following table:

Net earnings	As reported	\$ 43,114
	Pro forma	\$ 39,917
Earnings per share	As reported	\$ 1.12
	Pro forma	\$ 1.04
Diluted earnings per share	As reported	\$ 1.08
	Pro forma	\$ 1.00

The fair value of each option granted was estimated at the grant date using the Black-Scholes option-pricing model. Calculations were based upon a market price of \$6.94, an expected volatility of 30%, a risk-free interest rate of 4.92%, an expected life of 4 years and a 0% expected dividend. The theoretical fair value of options granted since the beginning of the year is \$2.19 per option according to this method.

16. Financial instruments

The following methods and assumptions were used to determine the estimated fair value of each class of primary financial instruments:

- The fair value of cash, accounts receivable, outstanding cheques, bank loans and accounts payable and accrued liabilities is comparable to their carrying amounts, given the short maturity periods;
- The fair value of advances and loans, substantially all of which have been granted to dealer-owners, has not been determined because such transactions have been conducted to maintain or to develop favourable trade relationships and do not necessarily reflect terms and conditions which would have been negotiated with arm's length parties. Moreover, the Company holds sureties on certain investments which provide it with potential recourse regarding the operations of the dealer-owners in question;
- The fair value of long-term debt, except for debentures and preferred shares, is determined on the discounted value of future contractual cash flows using interest rates representing those which the Company could currently use for loans with similar terms and conditions and maturity dates. The fair value of long-term debt approximates the carrying amount;
- In 2001, the fair value of the debentures could not be determined because it was practically impossible to find a financial instrument on the market having substantially the same economic characteristics;
- The fair value of Class A preferred shares, Series 5, Class C preferred shares, Series 1, and Class D preferred shares presented in the long-term debt, is equivalent to their redeemable value.

The fair value of interest rate swaps, as established by the issuing financial institutions based on quoted market prices at the balance sheets dates for similar instruments, is (\$2,133,000) in 2002 and was (\$1,138,467) in 2001. Since the public offering on November 5, 2002, the Company considers that these interest rate swaps are no longer being used for hedging purposes and, accordingly, recognized these swaps at fair value. The resulting gains and losses are recorded in earnings since that date.

17. Employee future benefits

As at December 29, 2002, the Company has seven defined contribution pension plans and four defined benefit pension plans.

Following the harmonization of the Company's pension plans, two of the defined contribution plans were terminated after year-end. Moreover, on January 1, 2003, the defined benefit pension plans acquired on the acquisition of a company mentioned in Note 6 were converted into defined contribution pension plans. The Company will continue to assumed the accrued benefit obligations at the time of plan conversion, which did not result in a gain or loss for the Company.

The total obligation for defined contribution pension plans is \$1,633,000 (\$1,267,000 in 2001).

17. Employee future benefits (Continued)

Information relating to the defined benefit pension plans, combined, is as follows:

	2002	2001
Accrued benefit obligation		
Balance, beginning of year	\$ 22,743	\$ 5,530
Current service cost	3,500	1,564
Interest cost	1,906	802
Benefits paid	(600)	
Actuarial gains	(163)	(2,013)
Acquisition		16,754
Plan amendment		106
Balance, end of year	27,386	22,743
Plan assets		
Fair value, beginning of year	21,422	4,754
Actual return	(725)	320
Employer contributions	3,665	1,687
Benefits paid	(600)	
Acquisition		14,661
Fair value, end of year	23,762	21,422
Funded status—deficit	3,624	1,321
Unamortized cost of past services	(92)	(106)
Unamortized net actuarial gains (losses)	(73)	1,798
Unamortized transitional obligation	(297)	(339)
Accrued benefit liability	\$ 3,162	\$ 2,674

The net pension expense for defined benefit pension plans is as follows:

	2002	2001
Current service cost	\$ 3,500	\$ 1,564
Interest cost	1,906	802
Expected return on plan assets	(1,300)	(535)
Amortization of past service cost	14	
Amortization of net actuarial gains	(9)	
Amortization of transitional obligation	42	42
Net pension expense	\$ 4,153	\$ 1,873

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows:

	2002	2001
Discount rate	6.25% to 6.75%	6.7%
Expected long-term rate of return on plan assets	7.0%	7.0%
Rate of compensation increase	3.0% to 5.5%	3.0% to 5.5%

18. Commitments

The Company has entered into long-term lease agreements expiring until 2019 which call for lease payments of \$70,070,000 for the rental of automotive equipment, computer equipment and distribution equipment, and the building housing the head office and the distribution centre in Quebec.

The Company has also entered into long-term lease agreements expiring until 2024 for the corporate stores in Ontario and Western Canada, for a total amount of \$433,201,000.

As part of the development of big-box stores with dealer-owners, the Company is initially involved as a primary tenant and then signs a subleasing agreement with the dealer-owners. In this respect, the Company is committed under agreements expiring until 2023 which call for minimum lease payments of \$152,669,000 for the rental of premises and land on which the Company erected a building. In consideration therefore, the Company has signed subleasing agreements totalling \$146,793,000.

Minimum lease payments (minimum amounts receivable) for the next five years are \$52,857,000 (\$9,419,000) in 2003, \$48,705,000 (\$9,286,000) in 2004, \$46,603,000 (\$9,352,000) in 2005, \$43,506,000 (\$9,430,000) in 2006 and \$37,677,000 (\$9,498,000) in 2007.

19. Contingencies

The Company has instituted proceedings against a third party for failure to comply with a contract for the acquisition of land. The third party responded to the Company's claim with a counterclaim for \$20,000,000. In the opinion of management, this counterclaim is unfounded.

Moreover, other lawsuits have been filed against the Company totalling \$18,000,000 relating to various claims, the outcome of which cannot currently be determined. The Company's insurers have taken up the Company's defense in these matters for an amount of \$9,833,000. Management did not deem it necessary to account for an allowance.

The Company has guaranteed bank loans and certain leases of dealer-owners for a total of \$290,000.

Furthermore, the Company has guaranteed mortgage loans of big-box stores for a total of \$15,429,000. The net carrying amount of assets held as security is \$22,203,000.

20. Segmented information

The Company has two reportable segments: distribution and corporate and franchised stores. In connection with its corporate and franchised stores activities, the Company acts as a franchiser of retail chains operating retail stores in Canada.

The accounting policies that apply to the reportable segments are the same as those described in accounting policies. The Company evaluates performance according to the earnings before interest, depreciation and amortization, rent and income taxes, i.e. sales less chargeable expenses.

2002

	Distribution ^(a)	Corporate and franchised stores	Total
Segment net sales	\$ 1,413,549	\$ 1,395,030	\$ 2,808,579
Intersegment net sales and royalties	(467,816)	(8,644)	(476,460)
Net sales	945,733	1,386,386	2,332,119
Earnings before interest, depreciation and amortization, rent and income taxes	33,728	147,093	180,821
Earnings before interest, depreciation and amortization and incomes taxes	20,545	108,239	128,784
Total assets	152,705	613,729	766,434
Acquisitions of fixed assets	9,090	26,218	35,308

2001

	Distribution	Corporate and franchised stores	Total
Segment net sales	\$ 1,153,305	\$ 1,046,308	\$ 2,199,613
Intersegment net sales and royalties	(356,114)	(8,955)	(365,069)
Net sales	797,191	1,037,353	1,834,544
Earnings before interest, depreciation and amortization, rent and income taxes	30,236	96,207	126,443
Earnings before interest, depreciation and amortization and incomes taxes	20,813	69,715	90,528
Total assets	148,705	595,371	744,076
Acquisitions of fixed assets and goodwill	6,644	112,210	118,854

21. Earnings per share

The following table presents a reconciliation of earnings per share and diluted earnings per share:

2002	Earnings	Weighted number of shares (in thousands)	EPS
Earnings per share:			
Net earnings	\$43,114	38,511.3	\$ 1.12
Diluted earnings per share:			
Effect of dilutive securities			
Impact of converting Class D preferred shares ^(a)		1,422.9	
Impact of exercising options		110.0	
Net earnings available for common shareholders	\$43,114	40,044.2	\$ 1.08
2001	Earnings	Weighted number of shares (in thousands)	EPS
Earnings per share:			
Net earnings	\$ 24,633	33,010.8	\$
Dividends on Class D preferred shares	(400)		
Net earnings available for common shareholders	24,233	33,010.8	0.74
Diluted earnings per share:			
Effect of dilutive securities			
Impact of converting Class D preferred shares ^(a)	400	1,677.2	
Net earnings available for common shareholders	\$ 24,633	34,688.0	\$ 0.71

^(a) Since November 5, 2002, these preferred shares no longer have their right of conversion into common shares and will no longer be included in this calculation as they are no longer dilutive.

^(a) In 2002, distribution sales primarily progressed in the area of direct deliveries where the contribution margin is lower than that of the distribution centres.

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Executive Vice-President, Big-Box Stores

Marc Dufresne

Executive Vice-President, Purchasing and Logistics

Jean Émond

Senior Vice-President, People and Culture

Claude Guévin

Executive Vice-President and Chief Financial Officer

KEY DATES

Fiscal year end: December 28, 2003

Release of Quarterly Reports:

- Q1: May 14, 2003
- Q2: August 22, 2003
- Q3: November 21, 2003

Annual General Meeting:

May 14, 2003 at 11:00 a.m. (Eastern Time)

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